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Committee on Payments and Market Infrastructures
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DTCC Comments

Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions ("CPMI-IOSCO") Consultative Report on the Harmonisation of key OTC derivatives data elements (other than UTI and UPI) –first batch (the "Consultation")

Dear Sirs,

On behalf of the Depository Trust & Clearing Corporation ("DTCC"), we welcome the opportunity to respond to the Consultation as part of DTCC's ongoing commitment to assist CPMI-IOSCO's in its efforts to realize the G20 goal of reducing systemic risk through improved transparency of over-the-counter ("OTC") derivatives trading globally. We applaud CPMI-IOSCO on its efforts to reduce data fragmentation and thus accelerate global data harmonisation.

These efforts however, require additional coordinated international steps outside the important work being done by CPMI-IOSCO to identify and define key data elements. DTCC strongly believes that a governance structure over the creation of and subsequent changes to a global data dictionary as well as reporting implementation matters must be agreed by the world's regulatory bodies under the guidance of CPMI-IOSCO to effectuate the goal of global data harmonisation.

Governance should include guidance restricting when and how the global set of key terms and its associated data dictionary can be changed. In doing so, certainty will be provided to the industry, trade repositories and regulators that the data to be requested and provided will remain consistent across regulatory regimes from ingestion of the data to its reporting to regulators. In terms of implementation matters, a consistent and predictable approach to changing the composition of the data elements in the global data set and the timing of such changes must be adopted. At present, there is no predictable cycle to the review and revision of regulatory requirements which makes planning for changes virtually impossible. Likewise, the need for a sufficient amount of lead time prior to implementation of any changes to reporting must be recognized. At present the lead time to implementation varies from jurisdiction to jurisdiction. Additionally, implementations are not synchronized causing redundant development on one side when there are serial changes and resources conflicts on the other when implementations overlap. A coordinated approach to

implementation would alleviate those problems. Once a governance structure has been established we would expect that global harmonisation can truly begin.

As a trade repository our interest is in being able to ingest and report data in the simplest and most efficient manner for the industry and regulators. Our responses are therefore limited and focused on providing DTCC's perspective on some of the challenges we have encountered to date regarding the data elements in the first batch, some of the solutions we have tried to implement and suggestions for the future.

If there are any questions or concerns regarding the contents of this response we welcome the opportunity to discuss these comments in greater detail if you wish.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read 'C Childs', written in a cursive style.

Christopher Childs
CEO
DTCC Deriv/SERV LLC

Responses to Questions

Q1. With reference to alternatives proposed for data elements included in the group “Date” (data elements 1.01, 2.01) and “Timestamp” (data element 8.03 in List 1 and data element 2.02 in List 2):

- (a) Are the advantages and disadvantages of proposed harmonisation alternatives included in the report appropriately defined? If not, which aspects should be revised and how?**

Answers below apply to both Effective Date and End Date.

The advantages of Alternative 1 is that the format proposed is already the OTC standard for Effective Date and End Date thus making it the most efficient to adopt requiring no systemic changes.

With respect to Alternative 2, it is not current market practice to have a time associated to the Effective Date or End Date of contracts. These dates are utilized to address duration of a contract and a means to calculate payments for certain products. Further, the aggregation aspects should be considered when performing risk review analysis. For example, all trades with an End Date of December 20, 2015 should be aggregated together without regard to timestamp as they have the same risk components. And last but not least, the technical implications to adopt Alternative 2 are quite significant. This would force the industry and market structure providers to capture, store and report the time component of these dates, which is not currently agreed by counterparties at execution or by any market structure provider. For those reasons, we believe the inclusion of a timestamp adds no value to reporting and does not advance any further transparency to the use of the data by authorities. We further urge that should this alternative be considered, that the cost also be considered as it is our belief that the costs far outweighs any potential benefit to be derived from Alternative 2.

- (b) Is the proposed default value sufficiently unambiguous? Will users of TR data be able to distinguish between the default value for timestamps and reported timestamps? If this would not be possible, what alternative do you suggest?**

The Effective Date and End Date formats proposed are sufficiently unambiguous, however as stated in answer 1(a) above, Alternative 1 would be the recommended option. Currently, some jurisdictions require both dates to be equal to or later than the Execution Timestamp. Harmonisation on detailed rules like this should be considered for these data elements. If rules are required above and beyond those outlined as global guidance, it will create issues for those TR's and market participants that operate in multiple jurisdictions.

- (c) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?**

DTCC would recommend the adoption of Alternative 1 for both Effective Date and End Date. As noted in our response to question 1(a), Alternative 2 does not utilise any current market practice and would be a significant cost to the industry to implement. It is unclear the value regulators would gain by imposing this requirement.

Q2. With reference to alternatives proposed in the allowable values for the data element “Cleared”:

(a) Are the advantages and disadvantages of proposed harmonisation alternatives included in the report appropriately defined? If not, which aspects should be revised and how?

There are disadvantages to Alternative 1 as there are other means to obtain this information whether through data fields in the reported trade or clearing house static data regarding its clearing members. For example, the legal entity identifier (LEI) is captured to represent the parties to the trade in most instances. If the trade has been cleared, the clearing house will be listed as one of the parties to the trade with the LEI value provided. Additionally, the counterparty to the clearing house will also be provided and further clearing member is a data attribute currently captured in trade reporting today.

There are also disadvantages to the technical implementation of Alternative 1 because it combines clearing status and method which would typically be captured by 2 separate data elements. If the goal is to know if the trade was cleared and how, this would be best implemented in 2 distinct fields.

(b) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

DTCC recommends the adoption of Alternative 2. This avoids the duplication of information and is clear in its definition.

(c) Are the proposed alternatives sufficient to accommodate the potential need to distinguish between direct and indirect clearing?

As noted in response 2 (a) data attributes reported on the trade should enable regulators to distinguish between indirect and direct clearing.

Q3 With reference to the definition of “ID of the primary obligor 1” (data element 5.01) and “ID of the primary obligor 2” (data element 5.02):

The definition of primary obligor is unclear as it seems to suggest a variety of potential relationships. Does primary obligor represents guarantors to the trade or is it meant to present the ultimate beneficiaries to a trade? For example, where an asset manager executes a trade on behalf of a fund, is the primary obligor meant to address the fund? Or, is the primary obligor meant to address the ultimate entity that has the obligation for the trade in the hierarchy? For example, the ultimate parent of a dealer providing a guarantee of the obligations of a trade executed by a subsidiary entity of the parent? For each of these scenarios, there are existing fields that already capture such information. The Execution Agent field captures the Asset Manager details, while party fields represent the beneficiary entity (the party subject to the rights and obligations arising from the contract). DTCC would suggest that the group reconsider the

definition of this field in light of other data elements that may already satisfy the intended objective.

- (a) Would the guidance be sufficiently clear in the case of original and cleared trades, taking different clearing models into consideration?**

No, the guidance would not be clear unless the definition of this element is clarified.

- (b) Would the guidance be sufficiently clear in the case of trusts or collective investment vehicles?**

DTCC is not aware of any additional guidance needed, but would need to understand any potential implications regulators see for this particular scenario.

Q4. With reference to the definition for “Notional amount”:

- (a) Should guidance be complemented by a definition of “leg 1” and “leg 2” or are market conventions already clear? In the former case, which definition would you suggest? If relevant, please provide an asset-class specific answer.**

There is no industry standard for defining leg 1 or 2. There would be complexities in implementing a process around determining leg 1 and leg 2 between counterparties and middleware platforms used throughout the trade lifecycle. For matching purposes today in ESMA, DTCC checks both leg 1 and leg 2 to ensure values match up regardless of how they’re reported. Those viewing the data should be able to match up the legs as most standard contracts will have 2 legs.

- (b) As regards FX derivatives, the solution proposes only two notional amounts based on the assumption that for FX swaps the spot and the forward leg are represented as two separate transactions with separate UTIs linked via a linkage data element. Should the Harmonisation Group take into consideration an additional alternative? If yes, which one and why? For example, should the Group require a total of four FX notional amount data elements namely two notional amount data elements to represent the two currencies associated with each leg of the swap?**

We agree with the proposed solution. It is currently industry practice to confirm FX swaps as 2 transactions as described above. To change the existing standard would require a significant build for the industry and TR’s in order to process this data. DTCC would recommend the 2 notional amounts stay in place.

- (c) Should the Harmonisation Group in the future decide to provide harmonisation guidance also for the notional amount of commodity derivatives, which aspects should it take into account? How should this potential harmonisation proposal be defined for different commodity derivatives?**

The Harmonisation Group should provide guidance for commodity derivatives notional amount. Although notional amount is typically not a data attribute

considered applicable for commodities, participants have created processes in order to report this data due to regulatory requirements, specifically in the U.S. and Europe. The existing methods firms use to report this value today should be taken into consideration for the proposed harmonization definitions.

Q5 With reference to alternative 1, which harmonises both the actual “Notional amount” (Data elements 6.01 and 6.02) and the “Original notional amount” (Data element 6.04), versus alternative 2, which harmonises only the actual “Notional amount” (Data elements 6.01 and 6.02):

(a) Are the advantages and disadvantages of proposed harmonisation alternatives included in the report appropriately defined? If not, which aspects should be revised and how?

Alternative 1 would force users to store information on the original notional amount through out the life of the trade which would be costly to implement, since the life of a trade can be for a significant amount of time. Also, the solution does not take into account if the base trade had 2 Notional Amounts, which means an Original Notional 1 as well as an Original Notional 2 would need to be implemented.

Alternative 2 would allow users to report once, and would require the TR’s to store that initial trade for investigation purposes. Since the TRs are already obligated to a retain records from participants, this solution is less cumbersome to implement. This proposal is trying to address how regulators use the data and trace back to original terms. This should be considered in terms of aggregation and audit trail of all messages rather than attempting to create one trade record with historical and current data. As an example, TRs could offer the search functionality for regulators to query the original Notional Amount for a particular trade.

(b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

DTCC recommends Alternative 2. As noted above in Question 5(a) it would be costly for the industry to implement Alternative 1.

Q6 With reference to alternatives proposed in the allowable values for the data elements “Notional currency” (alternative 1 and 2):

(a) Are advantages and disadvantages of proposed harmonisation alternatives included in the report appropriately defined? If not, which aspects should be revised and how?

Alternative 1 is how the industry has adapted in order to report within the confines of current regulations. If this option was adopted, there would be no technical impact to the industry.

All other advantages and disadvantages are listed in the response.

- (b) **Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?**

DTCC would recommend Alternative 2 to be implemented. To ensure there is strict guidance on allowable values DTCC would suggest that the industry propose a generic ISO currency code that can be used for offshore currencies (for example: OFS).

Q7 With reference to the data element “Valuation amount”:

- (a) **Are the two proposed alternatives agreeable? Please specify for which types of derivatives which of the alternatives should apply.**

DTCC would recommend Alternative 1 for the Valuation Amount as this is current OTC derivative market practice.

- (b) **Should the following factors, upfront payment and daily settlement of the derivatives transaction, be reflected in the valuation amount? If yes, please specify how.**

Since there are varying approaches in the industry today, DTCC would recommend CPMI-IOSCO defer to the industry to define the best practice.

Q8 With reference to alternatives proposed for included in the group “Valuation” (data elements 8.04 and 8.05):

- (a) **Are the advantages and disadvantages of proposed harmonisation alternative?**

The current options do not provide enough guidance as to the expectation of what valuation should be reported. Today there is a divergence between the US and EU rules on what valuation is to be used for reporting. The US requires the counterparties’ valuation, where the EU requires the CCP’s valuation where the trade is cleared. For users who have cross boarder obligations and report into TRs that report to both jurisdictions, this means that 2 separate valuations need to be sent from one party for one trade valuation. It forces the TR to have to support 3 fields for valuation in order to support the diverging rules and to support delegation of valuation data (Trade Party 1 Valuation, Trade Party 2 Valuation, and CCP Valuation)

We recommend where a trade is cleared, to use the CCP’s valuation and where it is not, it is expected that the trade parties’ valuation be used.

- (b) **Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?**

DTCC would recommend Alternative 2. Alternative 1 would utilize existing fields and values, but under this option an existing field would need to be modified in order to satisfy this alternative. Under DTCC’s current TR specifications, valuation source is used to describe the market source used in order to report this value (This field only applies when the value of the Valuation Model is Mark to Market). The suggested values in Alternative 1 would be a generic representation of values already used for reporting today.

Q9 With reference to alternatives proposed for the data element “Direction”:

- (a) Are the advantages and disadvantages of proposed harmonisation alternatives included in the report appropriately defined? If not, which aspects should be revised and how?**

For Alternative 1, while some conventions defined are market practice, there are still rules being created which do not align with the industry practice and have been problematic to implement, specifically for rates and FX. For Alternative 2, this option would be applicable to where there are two payment streams and where it is typically not customary to have a buyer in an OTC derivatives contract.

- (b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?**

DTCC would recommend a combination of Alternative 1 and Alternative 2.

From Alternative 1 DTCC believes the below rules align with market practice and should apply for those specific products:

For futures and forwards other than FX: buyer is buyer of the instrument.

For options and swaptions: buyer is the party that holds the right to exercise the option.

For credit derivatives (except options and swaptions): buyer is the buyer of credit protection.

For equity swaps: buyer is the counterparty that takes the risk of the price movement of the underlying paying the fixed rate and receiving the equity equivalent amount.

For dividend swaps: the buyer is the counterparty receiving the equivalent actual dividend payments and paying the fixed rate.

For IRS: buyer is the counterparty paying the fixed rate. In case of basis swaps (float-to-float), the buyer is the counterparty that pays the spread.

For debt swaps: the buyer is the counterparty that takes the risk of the price movement of the bond and pays the fixed rate.

From Alternative 2 DTCC believes the payment stream should be applied for FX swaps, forwards, cross currency swaps and exotics.

In order to ensure that TR's can validate the above accurately, the UPI will need to be able to distinguish between the above type of contracts in order for the TR to understand whether it should require a buyer or the payment stream payer. A

list of the products that apply to the above should be provided by CPMI-IOSCO and endorsed by all regulators

- (c) **Are the proposals sufficiently robust for transactions with multiple legs? With reference to Alternative 1, can the counterparty side (buyer/seller) clearly identify the parties paying each relevant payment stream? With reference to Alternative 2, is the payer of payment streams an applicable concept for all payment streams? Responses illustrated with worked examples where applicable would be appreciated.**

The hybrid approach suggested in Question 9(b) is sufficiently robust for the majority of OTC derivatives transactions. In the case of exotics where there may be more than 2 legs applicable, there would need to be a process defined for how users can report this. Today there is no regulation that requires or accounts for a transaction with multiple legs and therefore there is no industry standard for reporting these transactions. Guidance from regulators is needed on how many legs should be reported (an unlimited amount is not technically feasible). Once an allowable amount of legs are defined, TRs can support the payment stream payer for each leg.